

Date: April 7, 2015

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Department of Community Development
Subject: Conditional Commitment of Subordinate Financing in an Amount up to \$3,800,000.00 for the Second Phase of Rental Development of the Lofts at Southside and a Conditional Commitment to Fund the Associated Site Preparation and Infrastructure Improvements at an Amount Not to Exceed \$3,000,000.00

Executive Summary

The final Low Income Housing Tax Credit application for the second phase of mixed-income rental development for the Lofts at Southside is due to the North Carolina Housing Finance Agency (NCHFA) on May 15, 2015. The application submittal must include a commitment from the City of Durham to provide subordinate financing for the project and should also reference a commitment from the City to fund the site preparation and infrastructure improvements needed to serve the second phase of rental development. This second phase will consist of 85 mixed income rental units with 58 of the units being made available to individuals or households earning 60% or below of the Area Median Income (AMI). The current affordability mix is as follows: 4 units at 30% AMI, 1 unit at 50% AMI and 53 units at 60% AMI. Projected rents for the tax credit units will range from \$555.00 for the 1BR unit to \$865.00 for the 3BR unit.

Recommendation

The Department of Community Development recommends that City Council authorize the City Manager to issue to Southside Revitalization Phase II LP a conditional commitment of subordinate financing in an amount up to \$3,800,000.00 for the second phase of rental development of the Lofts at Southside consisting of 85 mixed income units and a conditional commitment to fund the associated site preparation and infrastructure improvements at an amount not to exceed \$3,000,000.00.

Background

In January of 2015, Southside Revitalization Phase II LP submitted a preliminary 2015 Tax Credit Application to the North Carolina Housing Finance Agency (NCHFA) for the second phase of development for the Lofts at Southside. Final site scores were released on March 27, 2015 and the site received the maximum number of points allowed. In preparation for submittal of the final application due by May 15, 2015, preliminary approval for a commitment of financing must be included as part of the application process.

Language in the Master Development Agreement (MDA) executed in June of 2012 defines the roles and responsibilities of the City of Durham and McCormack Baron Salazar, Inc. for the development of the former Rolling Hills site. In that document, the City committed to providing subordinate financing for the second phase of construction along with the infrastructure improvements. Over the last several months, the development team has submitted the preliminary tax credit application, begun the rezoning process for the site, and begun the design of the infrastructure improvements for the phase 2 and 3 site as well as the architectural design of the multi-family units as part of the tax credit submittal process.

Issues/Analysis

The request is for a conditional commitment of financing in support of the final tax credit application to NCHFA. There is no guarantee that the proposed project will receive an allocation of tax credits. If tax credits are allocated to the Phase 2 development effort, staff would return to City Council requesting approval of the loan documents associated with the construction to permanent financing for the buildings and approval of the construction contract for the installation of the infrastructure improvements for the second and third phase after that work is put out to public bid.

Alternatives

The City Council could elect to not approve the conditional commitment of financing for the Phase 2 development effort. Without the City's support, the redevelopment of the second phase would not move forward with MBS as a developer and the City would need to discuss other options to develop the Phase 2 site as well as the remaining acreage on the site. However the MDA states the City will undertake Phase 2 with MBS as long as MBS is not in default of the agreement and tax credits are awarded for the second phase.

Financial Impact

As part of the pre-development and tax credit application process, a development budget (Sources and Uses) has been created and updated based on the current design and current estimated costs which helps identify the financial "gap" associated with the project. The attached Sources and Uses identify a \$3.8 million gap associated with the Phase 2 development.

Over the last 6 months MBS hired a local architect for the second phase of development and engaged a General Contractor to be included as part of the development team. The ensuing design and cost estimating process along with discussing different unit mix scenarios have assisted in reducing the gap from an estimated \$6.1 million gap based on the earlier conceptual design presented to City Council in December of 2014 to the current \$3.8 million gap which is based on the schematic design and the preliminary plan submitted to NCHFA in January 2015. The development team will continue to refine design and hard costs as well as soft costs with the understanding the City's commitment is capped at \$3.8 million.

The City has committed to MBS to provide \$3.8 million in construction to permanent financing for the construction of the multi-family units. The construction to permanent loan will be funded with a multi-year commitment of Home Investment Partnership Program (HOME) funding in the amount of \$1,012,623.00 for fiscal year 2015, 2016 and 2017. The remainder of the balance will be funded by Housing Bond program income from fiscal year 2016 and 2017. The loan terms would be similar to the financial documents executed for Phase 1 to include a 45 year term at approximately 2% with repayment of the loan based on a percentage of the project cash flow with the outstanding balance of the principle due at maturity. Upon receipt of the tax credits, City staff would return to City Council requesting

approval of the loan documents associated with the \$3.8 million construction to permanent financing loan. The award of the tax credits is scheduled to be announced in August of 2015.

Additionally, the City will fund the infrastructure improvements on the remainder of the site at an estimated cost of \$3,000,000.00. The estimate is based on the cost opinion provided by the development team's civil engineering firm. The infrastructure improvements will be funded by current and future Community Development Block Grant funds. Upon approval of the award of 2015 tax credits and the completion of the site preparation and public infrastructure bid process, which is tentatively scheduled for December of 2015, this work would be put out to public bid and staff would return to City Council recommending approval of the site preparation and infrastructure contract.

SDBE Summary

If the commitment is authorized and the project is awarded low income housing tax credits, a detailed construction scope for all elements will be submitted to the Office of Equal Opportunity and Equity Assurance so that participation goals may be established.